



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General  
Office of Audit Services

REGION IV  
Room 3T41  
61 Forsyth Street, S.W.  
Atlanta, Georgia 30303-8909

NOV - 6 2001

CIN: A-04-01-03002

Ms. Patricia Williams  
Senior Vice President & COO  
First Coast Service Options, Inc. – 20T  
P. O. Box 2711  
Jacksonville, Florida 32202

Dear Ms. Williams:

We have enclosed two copies of our report on the United States Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) report entitled, ***First Coast Service Options, Inc. President's Council on Integrity and Efficiency Debt Collection Initiative***. We reviewed First Coast Service Options, Inc.'s (FCSO) financial statements for the period ending September 30, 2000 to determine if the amount of non-tax delinquent debt owed to Medicare existed as of September 30, 2000 and to assess the collectability of the delinquent debt at FCSO for the same time period.

The HHS action official will make the final determination as to actions taken on all matters we have reported. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 Code of Federal Regulations Part 5.) As such, within 10 business days after the final report is issued, it will be posted on the World Wide Web at <http://www.hhs.gov/progorg/oig>.

We appreciate the cooperation your staff provided to us during this audit. They contributed greatly toward the successful completion of this audit.

Page 2 – Patricia Williams

To facilitate identification, please refer to the Common Identification Number (CIN) A-04-01-03002 in all correspondence relating to this report.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Charles J. Curtis". The signature is fluid and cursive, with the first name "Charles" being more prominent.

Charles J. Curtis  
Regional Inspector General  
for Audit Services, Region IV

Enclosure

HHS ACTION OFFICIAL:

Rose Crum-Johnson, Regional Administrator  
Centers for Medicare & Medicaid  
U.S. Department of Health and Human Services

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**FIRST COAST SERVICE OPTIONS, INC.  
PRESIDENT'S COUNCIL ON INTEGRITY  
AND EFFICIENCY DEBT COLLECTION  
INITIATIVE**



**JANET REHNQUIST  
Inspector General**

**NOVEMBER 2001  
A-04-01-03002**

# **EXECUTIVE SUMMARY**

## **BACKGROUND**

Medicare accounts receivable primarily represent funds owed to the Centers for Medicare & Medicaid Services (CMS), formerly the Health Care Financing Administration, due to Medicare contractors: (1) overpaying providers for a variety of reasons; and (2) paying providers as primary insurer when other entities; for example, insurers of the working aged, were actually the primary insurer which made Medicare the secondary payer. The first is referred to as non-Medicare secondary payer (non-MSP) and the second is referred to as MSP. The CMS requires the contractor to report these accounts receivable balances on the “Contractor Financial Reports” (CMS 750/751) for reporting purposes.

Medicare contractors pay physicians and other entities for services and supplies provided to beneficiaries. In some instances providers submit claims and receive payments for services and supplies for which they are not entitled. These instances usually result in overpayments. The contractors report these overpayments to CMS on the H750/751 as non-MSP accounts receivable balances.

Until 1980, Medicare was the primary payer for all health care costs for beneficiaries eligible for Medicare benefits. Beginning in 1980, Congress passed a series of statutory provisions requiring private insurers to pay the claims for health services provided to covered beneficiaries, in certain instances, before the contractors pay them on behalf of Medicare. These provisions made Medicare the secondary payer. The contractors report overpayments to CMS on the M751 and the H751 as MSP accounts receivable balances.

## **OBJECTIVES**

Our primary audit objectives were to: (1) determine the amount of non-tax delinquent debt owed to Medicare that existed at September 30, 2000; and (2) assess the collectability of the delinquent debt at the Medicare contractor level for the same period. Specifically, we were to determine whether the accounts receivables balances were recorded, supported, complete, properly valued, existed and whether FCSO followed appropriate procedures to either collect the debt and/or transfer the debt to the Regional Office (RO).

## **SUMMARY OF FINDINGS**

To complete our audit objectives, we reconciled the accounts receivable balances reported on the CMS H750/751 to the contractor’s subsidiary records for the period ending September 30, 2000. We sampled case files containing documentation supporting the accounts receivable balances in two general categories: non-MSP and MSP. For non-MSP, we tested 100 randomly sampled Part A and 100 randomly sampled Part B

accounts receivable transactions. For MSP, we tested 45 randomly sampled Part A and 45 randomly sampled Part B accounts receivable transactions.

In addition, we judgmentally tested Part A and Part B non-MSP and MSP accounts receivables that were transferred to the RO to ensure the contractor maintained support to justify the transfer of these receivables. We also identified and tested the largest single Part B MSP transfer to the RO to ensure this receivable was not included in the ending balance on the M751 at September 30, 2000.

The accounts receivable balances FCSO reported on the CMS H750/751 for financial statement purposes for the period ending September 30, 2000 for Part A (non-MSP and MSP) accounts receivable was \$309,333,980 and the balance for Part B (non-MSP and MSP) was \$129,579,480. When we reconciled these accounts receivable balances with the subsidiary records, we determined that the CMS H751 for Part B non-MSP was overstated by \$9,159,376 (\$144,087 for unsupported receivables and \$9,015,289 in receivables which were closed on FCSO's PSOR, but remained open on FCSO's internal financial system) (see Appendix A).

Our tests of the 100 randomly sampled Part A non-MSP accounts receivable transactions showed 97 of the 100 transactions were recorded, supported, complete, properly valued and existed at September 30, 2000. We also concluded from our tests of the interest balances for these 97 receivables that when applicable, the interest balances were accurately reported and supported. However, our tests showed that three accounts receivable balances totaling \$27,419 were unsupported (see Appendix B). In addition, we noted seven instances totaling \$2,690,240 where status codes for accounts receivable balances did not agree with the supporting documentation (see Appendix C). Finally, we concluded that FCSO did not follow the procedures required by the Debt Collection Improvement Act (DCIA) of 1996 in its efforts to collect 32 of the 100 Part A-non-MSP accounts receivable balances (see Appendix D).

Our tests of the 100 randomly sampled Part B non-MSP accounts receivable transactions showed that all 100 were recorded, adequately supported, complete, properly valued and existed. However, we noted one instance totaling \$31,851 where the status code for the accounts receivable balance did not agree with supporting documentation (see Appendix C). We also concluded from our tests of the interest balances reported by FCSO on their financial statements for the period ending September 30, 2000, that the interest balances were accurately reported and supported.

Our tests of the 45 Part A MSP and 45 Part B MSP accounts receivable balances showed that 44 Part A and 44 Part B accounts receivable balances were recorded, adequately supported, complete, properly valued and existed. However, we determined that one Part A (\$5,908) accounts receivable balance and one Part B MSP (\$299) accounts receivable balance were unsupported (see Appendix B).

Our tests showed that the Part A and Part B non-MSP and MSP accounts receivables transferred to the CMS Region IV Office were adequately supported in FCSO's case files. We also concluded the largest single Part B MSP transfer to the RO, \$692,081, was properly not included in the ending balance on the M751 at September 30, 2000.

## **RECOMMENDATIONS**

We recommend that FCSO:

- establish a system of internal controls that will provide adequate and timely tracking of its collection activities;
- correct status codes on the eight accounts receivable balances (seven Part A and one Part B) to show the accurate location of the balances;
- reduce accounts receivable balances to reflect the unsupported accounts receivable balances [four Part A totaling \$33,327 (\$27,419 and \$5,908) and two Part B totaling \$144,386 (\$144,087 and \$299]; and
- continue with plans to reopen the Part B non-MSP accounts receivable balance totaling \$9,015,289.

## **AUDITEE'S COMMENTS**

The FCSO officials concurred with six of the eight recommendations in our draft report, and advised they either have or plan to take action on our recommendations. They advised they do not concur with recommendations Number 2 and Number 8.

In their comments for Number 2, they acknowledged that the status codes on six of the seven accounts had been corrected, but the seventh receivable was not transferred to them from another contractor and does not appear on their system. They also stated they have strengthened their process beginning for the month of July 2001 by reviewing the status codes on a monthly basis, and they have an adequate system to assure posting of the correct status on the POR.

In their comments to Recommendation Number 8, they acknowledged that the amounts in the report were accurate and supported. They also acknowledged that the amount of the accounts receivable balance they were unable to reconcile was insignificant and due to the lack of an integrated financial system with a subcontractor who processes their carrier claims.

We have included the entire contents of the FCSO officials' comments to our report as Appendix E.

## **OAS RESPONSE**

We concur with FCSO officials' comments and the actions they advise they have taken or plan to take with two exceptions. The first exception is FCSO officials should coordinate with CMS officials regarding the status code denoting the correct location of the one account receivable balance we noted in our report. The second is, although we agree that the FCSO's unreconciled amount is insignificant, it may be a coincidence and does not justify not having a fully integrated financial system with their subcontractor.

# INTRODUCTION

## BACKGROUND

Medicare accounts receivable primarily represent funds owed to the CMS, formerly the Health Care Financing Administration, due to Medicare contractors: (1) overpaying providers for a variety of reasons; and (2) paying providers as primary insurer when other entities, for example insurers of the working aged, were actually the primary insurer which made Medicare the secondary payer. The first is referred to as non-MSP) and the second is referred to as MSP. The CMS requires the contractor to report these accounts receivable balances on the “Contractor Financial Reports” (CMS 750/751) for reporting purposes.

### **Non-MSP Accounts Receivable Balances**

Medicare contractors pay physicians and other entities for services and supplies provided to beneficiaries. In some instances, providers submit claims and receive payments for services and supplies for which they are not entitled. Instances such as these usually result in overpayments. The contractors record these overpayments as accounts receivable.

The CMS utilizes the Provider Overpayment Reporting system (POR) to record and track amounts associated with Medicare Part A accounts receivable and the Physician Supplier Overpayment Reporting system (PSOR) to record and track Medicare Part B accounts receivable. The CMS relies on these two systems as a uniform method for tracking and reporting overpayments and receivables data and also for compiling information for managements’ use. The contractors categorize the receivables in these systems using codes that indicate the physical location of the receivables, such as those at contractor locations, those at various locations within the CMS and those at the Department of Justice. With the exception of Currently Not Collectible (CNC) debt, the contractor reports these POR/PSOR balances to CMS on the H751. The contractor does not report the CNC debt on the financial statements, because of the likelihood the debt will be not be collected.

However, the contractor reports some receivables on the H751 that are not accounted for on the POR/PSOR. The contractor uses ad hoc systems to account for these receivables that include:

- **Credit Balance Receivables** -- A credit balance receivable results from an improper or excess payment the contractor made to a provider due to either patient billing or contractor claims processing errors. The CMS requires providers to report these receivables to the contractor quarterly using a CMS-838 form. The CMS uses this form specifically to monitor the identification and recovery of “credit balances” that are due to the Medicare program.



- **Periodic Interim Payments (PIP) Receivables** – A PIP receivable results from an overpayment associated with the contractor making a PIP. The contractor usually makes PIPs biweekly based on the total estimated Medicare costs a provider will incur during a reporting period and uses an Excel spreadsheet or similar method to accumulate the receivable data. The spreadsheet contains information for comparing: (1) the PIPs the contractors made to providers for the current fiscal year to the claims the providers submitted during the year as reported on the Provider Statistical Report (PS&R); and (2) those claims for services the providers rendered, but had not submitted to the contractor.
- **Carry-Over Adjustment Receivables** (i.e. claims adjustments) – A carry-over adjustment receivable results from a change the contractor makes to a previously submitted claim. This change creates an overpayment if the contractor does not immediately offset it against entitlements owed to the provider. Contractors record these types of overpayments as receivables in their Medicare systems. In most cases, the contractor offsets the carry-over adjustments within a short period of time. However, in the case of an inactive provider, a change in provider number, a terminated provider or a change in fiscal intermediary (FI), the carry-over adjustment can remain outstanding for a significant period of time.

### **Medicare Secondary Payer Accounts Receivables**

Until 1980, Medicare was the primary payer for all health care costs for beneficiaries eligible for Medicare benefits. Beginning in 1980, Congress passed a series of statutory provisions that require private insurers to pay in certain instances the claims for health services provided to covered beneficiaries before the contractors pay them on behalf of Medicare. As a result of these provisions, Medicare is the secondary payer to the insurers for the working aged (employed Medicare beneficiaries and their spouses who have insurance through their employment), for beneficiaries with either liability or automobile insurance and for those with end-stage renal disease.

In practice, Medicare contractors either should not pay claims as primary insurer when known MSP situations exist or should pay claims as primary and subsequently seek recovery from the other insurer. The contractors should account for the MSP debts that result in a database and report the balances to CMS on the CMS 751 on a quarterly basis.

### **Managing Accounts Receivable Balances**

Managing the accounts receivable balances are a joint responsibility between the Medicare contractors and the CMS RO and Central Office (CO).

Medicare contractors are responsible for managing the majority of the accounts receivable balances for CMS. Inherent in those responsibilities are identifying, collecting, accounting and reporting the results of their management to CMS on a quarterly basis. For financial reporting purposes, CMS requires the contractors to use the

“Contractor Financial Reports” (CMS 750/751) to capture and report accounts receivable information.

The CMS’ ROs and CO are jointly responsible for managing the remaining accounts receivable balances. These balances are taken from the: (1) POR system; (2) PSOR system; and (3) RO Status of Accounts Receivable Reports (CMS Forms R751A and R751B).

Generally, the process is the contractors notify the ROs that they want to transfer their responsibility for certain balances to the RO after satisfying themselves they have performed all the due diligence requirements on certain aged balances. The contractors initiate this action by referring those balances to the ROs. After verifying the contractors have performed all the due diligence requirements on the referrals, the ROs notify the contractors that the ROs either: (1) accept the contractors’ referrals which indicate the ROs accept the responsibility for accounting and reporting those balances to the CO; or (2) reject the contractors’ referrals because ROs are not satisfied that the contractors have performed all of the due diligence requirements on certain balances, and the responsibility for collecting, accounting and reporting remains with the contractor.

For those balances the ROs accept as transferred from the contractors, the contractors must record the principal amounts of the accounts receivables and any interest as a write-off/transferred amount on the CMS 751. In reporting the transfers, the contractors must distinguish on the CMS 751 between balances recorded on CMS’ POR/PSOR and those not recorded on CMS=POR/PSOR. In either case, the balances the contractors transfer to the RO should no longer be in the ending accounts receivable balance on the CMS 751.

The CMS uses the POR/PSOR and the R751 to report accounts receivable transactions that have been transferred to the ROs from the contractors. Specifically, CMS uses the POR/PSOR to report accounts receivable activity for the following non-contractor locations:

- CMS ROs;
- OIG/Office of Counsel to the Inspector General (OIG/OCIG);
- Department of Justice (DOJ); and
- Central Office/Debt Collection Center (CO/DCC).

The location status code on the POR/PSOR indicates the location of each receivable.

# **OBJECTIVES, SCOPE AND METHODOLOGY**

## **AUDIT OBJECTIVES**

Our primary audit objectives were to: (1) determine the amount of non-tax delinquent debt that existed at September 30, 2000; and (2) assess the collectability of the delinquent debt at the Medicare contractor level for the same period.

The specific objectives at the contractor level were to determine whether the:

1. Accounts receivable balances the contractor reported to CMS on the "Contractor Financial Reports" (750/751) were supported, complete, properly valued and existed at September 30, 2000;
2. Contractor appropriately implemented CMS' instructions for reporting non-MSP CNC Debt; and
3. Contractor appropriately implemented procedures that complied with the requirements of DCIA.

## **SCOPE AND METHODOLOGY**

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform our audit to obtain reasonable assurance that CMS' financial statements are free of material misstatement and that CMS, as well as Medicare contractors such as FCSO, have complied with applicable laws and regulations.

We performed our audit from January 2001 through July 2001 at FCSO offices in Jacksonville, Florida and the OAS offices in Birmingham, Alabama and Atlanta, Georgia.

To accomplish our objectives, we did the following:

1. Reviewed applicable laws and regulations;
2. Interviewed Contractor officials;
3. Identified the population of accounts receivable for:
  - Audit reimbursement (system for tracking audit reimbursements and provider overpayment reporting);

- Credit balances (Credit Balance Report CMS 838);
  - Carryover adjustments (claims processing systems); and
  - MSP (CMS Data Match).
4. Reconciled accounts receivable balances reported on the quarterly Contractor Financial Statement Reports (CMS 750/751) to source documentation;
  5. Tested 100 randomly sampled Part A non-MSP accounts receivable transactions and 100 randomly sampled Part B non-MSP accounts receivable transactions to determine whether they were recorded, supported, complete, properly valued, existed and whether the contractor followed appropriate procedures to collect the debt and/or transfer the debt to the RO;
  6. Judgmentally tested non-MSP accounts receivables that were transferred to the RO to ensure the contractor maintained support to justify the transfer of these receivables;
  7. Tested 45 randomly sampled Part A MSP accounts receivable transactions and 45 randomly sampled Part B MSP accounts receivable transactions to determine whether they were recorded, supported, complete, properly valued, existed and whether the contractor followed appropriate procedures to collect the debt and/or transfer the debt to the RO;
  8. Reviewed the largest single Part B MSP transfer to the RO to ensure it was not included in the ending balance on the M751; and
  9. Judgmentally tested MSP global settlements to ensure there was support in the case folders to justify their transfer to the RO as global settlements.

We issued a draft report to FCSO officials on September 13, 2001 and invited them to comment on the findings and recommendations in the report. We summarized the FCSO officials' comments in the Executive Summary and at the end of the Recommendations section of the report. We also included the entire text of their comments as Appendix E.

## **RESULTS OF AUDIT**

At September 30, 2000, FCSO was responsible for \$309,333,980 in Part A non-MSP and MSP accounts receivable balances and \$129,579,480 in Part B non-MSP and MSP accounts receivable balances.

Our tests of the 100 randomly sampled Part A non-MSP accounts receivable balances were comprised of 30 Part A non-MSP accounts receivable balances totaling \$3,520,120 that were less than 180 days delinquent and 70 Part A non-MSP accounts receivable

balances totaling \$18,466,997 that were greater than 180 days delinquent. The 100 randomly sampled Part B non-MSP accounts receivable balances were comprised of 30 Part B non-MSP accounts receivable balances totaling \$1,337,006 and 70 Part B non-MSP accounts receivable balances totaling \$9,012,545.

### **Part A Non-MSP Accounts Receivable Balances**

We determined that all of the 30 Part A non-MSP accounts receivable balances were recorded, supported, complete, properly valued, existed and the status codes depicting location agreed with the supporting documentation. However, we determined that FCSO did not: (1) send original demand letters, as CMS required, for four of the 30 accounts receivable balances; and (2) follow appropriate procedures, as the DCIA required, in its efforts to collect 7 of the 30 accounts receivable balances (see Appendix D).

We determined that 67 of the 70 Part A non-MSP accounts receivables balances were recorded, supported, complete, properly valued and existed. However, we found the remaining three accounts receivable balances totaling \$27,419 were unsupported and all three had determination dates in 1996 (see Appendix B). Therefore, we were unable to determine if these three accounts were complete, properly valued and actually existed. In addition, we noted seven instances totaling \$2,690,240 where the status codes for the accounts receivable balances did not agree with supporting documentation (see Appendix C). **Note:** The status codes are useful in noting when an accounts receivable balance can be referred to the RO. We also determined that FCSO did not send original demand letters for 8 of the 70 accounts receivable balances. Finally, we concluded FCSO did not follow DCIA-required procedures in its efforts to collect 25 of the 70 accounts receivable balances (see Appendix D).

In addition to the tests described above, we determined that the proper interest rate was applied when applicable to the Part A non-MSP accounts receivable balances that we tested.

### **Part B Non-MSP Accounts Receivable Balances**

We determined that all 30 Part B non-MSP accounts receivable balances were recorded, adequately supported, complete, properly valued and existed. We also determined the status codes agreed with the supporting documentation with one exception that totaled \$31,851 (see Appendix C). In addition, we determined that original demand letters were sent when applicable and collection efforts on all 30 accounts receivable balances complied with the DCIA requirements.

We determined that all 70 Part B non-MSP accounts receivable balances were recorded, adequately supported, complete, properly valued, existed and that the status codes agreed with the documentation in the case files. We concluded that FCSO sent original demand letters, when applicable, and complied with the DCIA requirements in its collection efforts on all 70 accounts receivable balances.

We judgmentally selected and tested six non-MSP receivables to ensure adequate support was in the case files to justify transferring these receivables to the RO. We determined that the six non-MSP transfers were not duplicated and adequate support was in the case files justifying the transfers.

In addition to the tests described above, we determined that the proper interest rate was applied and the correct amount of interest was added to the 100 Part B non-MSP accounts receivable balances that we tested.

### **Part A MSP Accounts Receivable Balances**

We determined the 44 of the 45 Part A MSP accounts receivable balances we tested, were recorded, adequately supported, complete, properly valued and existed in the case files. However, we concluded the one remaining accounts receivable balance totaling \$5,908 was unsupported (see Appendix B). In addition, we judgmentally selected 26 MSP Part A receivables and tested them to ensure the case files included adequate support that justified transferring the case files to the RO. From our review, we determined that the 26 MSP transfers were adequately supported in the case files justifying the transfers.

### **Part B MSP Accounts Receivable Balances**

We determined that 44 of the 45 Part B MSP accounts receivable balances were recorded, adequately supported, complete, properly valued and existed. However, we identified one balance totaling \$299 to be unsupported (see Appendix B). We also judgmentally selected and tested 25 MSP receivables to ensure support was in the case files to justify transferring these receivables to the RO as global settlements. We determined that the 25 MSP transfers were adequately supported in the case files justifying the transfers as global settlements.

We also selected and tested the largest single accounts receivable balance, totaling \$692,081, that the FCSO transferred to the RO during the year to ensure this receivable was not included in the ending balance on the M751 at September 30, 2000. We concluded the \$692,081 was properly not included in the ending balance on the M751 at September 30, 2000.

### **Reconciliation Problems**

During our reconciliation of FCSO's PSOR with their CMS 750/751, we identified two actions that caused the CMS 751 to be overstated by \$9,159,376 at September 30, 2000 as follows:

- accounts receivable balances totaling \$9,015,289 were closed on FCSO's PSOR, but remained open on FCSO's internal financial system; and
- accounts receivable balances totaling \$144,087 were not adequately supported to ensure the receivables were valid and accurately recorded.

The FCSO officials advised us that they inadvertently closed the accounts receivable on the PSOR for the \$9,015,289, but have intentions to reopen this account (see Appendix A).

## **RECOMMENDATIONS**

We make the recommendations to the FCSO for the two areas as follows:

### **Part A Non-MSP and MSP Accounts Receivable Balances**

1. Establish a system of internal controls that will provide adequate and timely tracking of its collection activities that include sending demand letters as the DCIA requires.
2. Change the status code for the 7 accounts receivable balances on the POR totaling \$2,690,240 to agree with the supporting documentation that shows the revised status.
3. Adjust the Part A non-MSP accounts receivable balances by reducing it \$27,419 for the three unsupported accounts receivable balances.
4. Adjust the Part A MSP accounts receivable balance by reducing it \$5,908 for the one unsupported accounts receivable balance.

### **Part B Non-MSP and MSP Accounts Receivable Balances**

5. Change the status code for the 1 accounts receivable balance on the PSOR totaling \$31,851 to agree with the supporting documentation that shows the revised status.
6. Adjust the Part B MSP accounts receivable balance by reducing it \$299 for the unsupported account receivable balance.
7. Continue with their plans to reopen the Part B non-MSP accounts receivable balance totaling \$9,015,289 and periodically keep us informed of the status of this account.
8. Adjust the Part B non-MSP accounts receivable balance by reducing it \$144,087 for the unsupported account receivable balances.

## **AUDITEE'S COMMENTS**

The FCSO officials concurred with six of the eight recommendations in our draft report. They are Recommendation Numbers 1, 3, 4, 5, 6, and 7. In their comments, they advised they either have taken or plan to take action on our recommendations. They advised they do not concur with Recommendations number 2 and number 8.

In their comments to Recommendation Number 2, they acknowledged that the status codes on six of the seven accounts we noted as being incorrect had been corrected, but the seventh account receivable was not transferred to them from another contractor and does not appear on their system. They also stated they have strengthened their process beginning for the month of July 2001 by reviewing the status codes on a monthly basis, and they have an adequate system to assure posting the correct status on the POR.

In their comments to Recommendation Number 8, they acknowledged that the amounts in the report were accurate and supported. They also acknowledged that the amount of the accounts receivable balance they were unable to reconcile was insignificant and due to the lack of an integrated financial system with a subcontractor who processes their carrier claims.

We have included the entire contents of the FCSO officials' comments to our report as Appendix E.

## **OAS RESPONSE**

We concur with FCSO officials' comments and the actions they advise they have taken or plan to take with two exceptions. The first exception is FCSO officials should coordinate with CMS officials regarding the status code denoting the correct location of the one account receivable balance we noted in our report. The second is, although we agree that the FCSO's unreconciled amount is insignificant, it may be a coincidence and does not justify the lack of a fully integrated financial system with their subcontractor.



# APPENDIX

**VARIANCE BETWEEN FCSO'S 751 AND FCSO'S PSOR**

REASON FOR VARIANCE	DOLLAR AMOUNT OF VARIANCE
Per FCSO officials, we learned that one account with two receivables was closed on the PSOR, but remained open on FCSO's financial system. Therefore, the PSOR did not include a balance for this account. A/Rs 9091901190101 and 9091901190100.	\$9,015,289.00
Unexplained Variance	\$144,087.00
<b>TOTAL VARIANCE</b>	<b>\$9,159,376.00</b>

# Unsupported Part A and Part B non-MSP and MSP Accounts Receivable Balances

## Unsupported Part A non-MSP Accounts Receivable

#	Cost Report Date	Determination Date	Original Amount	Balance at 9/30/00
1	12/31/92	12/19/96	\$20,181	\$20,181
2	12/31/92	12/19/96	\$2,102	\$2,102
3	12/31/92	12/19/96	\$8,424	\$5,136
			<b>TOTAL</b>	<b>\$27,419</b>

## Unsupported Part A and Part B MSP Accounts Receivable

#	Part A Report Number	Part B Report Number	Balance at 9/30/00
1	000161		\$5,908
2		9370013020600	\$299

### Status Code Exceptions: Part A non- MSP Accounts Receivable

	Cost Report Date	Determination Date	POR Status Code	File Status Code	Status Correct	Original Amount	Balance At 9/30/00
#							
1	12/31/96	09/25/1999	AC	BH	N	\$683,603	\$683,603
2	12/31/97	09/01/1999	AC	BH	N	\$143,726	\$143,726
3	12/31/95	04/21/1997	AL	BA	N	\$371,252	\$371,252
4	12/31/96	09/11/1998	AL	BA	N	\$353,034	\$353,034
5	12/31/96	08/18/1998	AL	BA	N	\$498,961	\$498,961
6	12/31/95	09/30/1998	AL	BA	N	\$556,733	\$556,733
7	12/31/95	06/07/1996	BG	BH	N	\$186,536	\$82,931
						TOTAL	\$2,690,240

### Status Code Exceptions: Part B non- MSP Accounts Receivable

	Cost Report Date	Determination Date	PSOR Status Code	File Status Code	Status Correct	Original Amount	Balance At 9/30/00
#							
1	N/A	07/12/2000	W	S	N	\$31,851	\$31,851
						TOTAL	\$31,851

Legend - Status Code	
S	Provider Arranged for Extended Repayment Plan
W	Referred to the RO, but remains open for collection per offsets
AC	Interim Payments Suspended
AL	First Demand Letter
BA	Provider Under Fraud Investigation
BG	Established Repayment Schedule
BH	Provider Filed Bankruptcy Petition

## Debt Collection Improvement Act of 1996

## Non-Compliance

## Part A Non-MSP Accounts Receivable

#	Report Date	Determination Date	Balance at 09/30/00	DEMAND LETTERS				
				1st Request	2nd Request	3rd Request	Offset	Due Dillgence
1	03/31/1995	09/30/1997	\$195,112	YES	NO	NO	YES	NO
2	12/31/1997	06/30/1998	\$131,400	YES	NO	NO	YES	NO
3	06/30/1998	01/19/1999	\$80,683	YES	NO	NO	YES	NO
4	12/31/1997	08/24/1999	\$381,508	YES	NO	NO	YES	NO
5	06/30/1995	02/09/1998	\$172,950	YES	NO	NO	YES	NO
6	12/31/1995	02/15/1999	\$495,961	NO	NO	NO	YES	NO
7	12/31/1997	09/23/1999	\$561,936	YES	NO	NO	YES	NO
8	12/31/1997	06/01/1998	\$302,371	NO	NO	NO	YES	NO
9	12/31/1997	09/25/1999	\$143,840	YES	NO	NO	YES	NO
10	02/28/2000	11/17/1999	\$854,901	YES	NO	NO	YES	NO
11	12/31/1997	09/01/1999	\$791,718	YES	NA	NA	YES	NO
12	12/31/1997	06/02/1998	\$676,555	YES	NA	NA	YES	NO
13	12/31/1997	07/31/1998	\$447,071	YES	NO	NO	YES	NO
14	12/31/1998	01/27/2000	\$60,816	YES	NO	NO	YES	NO
15	07/31/1997	09/30/1999	\$113,134	YES	NO	NO	YES	NO
16	06/30/1997	09/01/1999	\$441,918	YES	NO	NO	YES	NO
17	02/28/1998	05/25/1999	\$765,271	YES	NO	NO	YES	NO
18	12/31/1992	12/19/1996	\$20,181	NO	NO	NO	NO	NO
19	12/31/1992	12/19/1996	\$2,102	NO	NO	NO	NO	NO
20	12/31/1992	12/31/1996	\$5,136	NO	NO	NO	NO	NO
21	12/31/1997	09/29/1999	\$306,018	YES	YES	NO	YES	NO
22	05/31/1996	12/11/1996	\$4,160	NO	NO	NO	YES	NO
23	12/31/1995	09/29/1997	\$209,154	YES	NO	NO	YES	NO
24	12/31/1997	06/29/1999	\$1,552	YES	NO	NO	YES	NO
25	05/31/1999	12/30/1999	\$56,608	NO	NO	NO	YES	NO
26	07/31/1998	03/22/2000	\$263,155	YES	NO	NO	YES	NO
27	12/31/1998	08/24/2000	\$379,065	YES	NA	NA	YES	NO
28	12/31/1998	04/24/2000	\$663,718	YES	NO	NA	YES	NO
29	12/31/1999	06/22/2000	\$179	NO	NO	NA	YES	NO
30	12/31/1998	03/31/2000	\$19,707	YES	NO	NO	YES	NO
31	12/31/1998	03/28/2000	\$665,869	YES	NO	NA	YES	NO
32	12/31/1999	06/19/2000	\$4,323	YES	NO	NA	YES	NO
	<b>TOTAL</b>		<b>\$9,218,072</b>					



**MICHAEL DAVIS**  
Vice President, Finance  
Chief Financial Officer

October 12, 2001

Mr. Charles. J. Curtis, Regional Inspector General  
Department of Health & Human Services  
Office of Inspector General  
Office of Audit Service  
61 Forsyth Street, S.W.  
Room 3T41  
Atlanta, Georgia 30303-8909

Dear Mr. Curtis:

**Refer to: CIN: A-04-01-03002**

The purpose of this letter is to submit our responses to the results of the United States Department of Health and Human Services, Office Of Inspector General's draft report entitled, *First Coast Service Options, Inc. (FCSO) President's Council on Integrity and Efficiency (PCIE) Debt Collection Initiative*. The draft report, dated September 13, 2001 and addressed to Ms. Patricia Williams, contained the results of a review of FCSO's financial statements for the period ending September 30, 2000; regarding the existence of non-tax delinquent debt owed to Medicare and collectability assessment of the delinquent debt.

**Part A Non-MSP and MSP Accounts Receivable Balances**

**Recommendation 1:** Establish a system of internal controls that will provide adequate and timely tracking of its collections activities that include sending demand letters, as DCIA requires.

***FCSO Response:***

*We concur that processes should be in place to ensure the timely sending of all demand letters as DCIA requires. To that end, a corrective action plan was developed in July 2001. As a result, we are sending second and third demand letters in a timely manner, in accordance with DCIA.*

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**Recommendation 2:** Change the status code for the seven accounts receivable balances on the POR totaling \$2,690,240 to agree with the supporting documentation that shows the revised status.

***FCSO Response:***

*We do not concur with the recommendation that the status codes for seven accounts receivable balances require change at this time. However, the status of those accounts as reviewed on the report by the auditor did require change. The report used by the OIG auditor to review the POR status code was as of 9/30/00. Six of the accounts identified were corrected after that date as a result of our operating procedures, not a result of this audit. The seventh record, Cost Report Date 12/31/95, Determination Date 06/07/1996, was not transferred to FCSO during the Aetna transfer. That provider does not appear on our STAR system for that fiscal period. The receivable balance also does not appear on the listing of accounts transferred to FCSO.*

*We have strengthened our process beginning for the month of July 2001 by reviewing the status codes on a monthly basis. We feel that we have an adequate system to assure the posting of the correct status within the POR.*

**Recommendation 3:** Adjust the Part A non-MSP accounts receivable balances by reducing it \$27,419 for the three unsupported accounts receivable balances.

***FCSO Response:***

*We concur with the recommendation. The three receivable balances are not supported. All three of these accounts receivable balances were part of the transfer of providers from Aetna when Aetna transitioned out of the Medicare program. As we are unable to locate the Notice of Program Reimbursement, we will remove these balances from our records.*

**Recommendation 4:** Adjust the Part A MSP accounts receivable balance by reducing it \$5,908 for the one unsupported accounts receivable balance.

***FCSO Response:***

*We concur with the recommendation. Extensive research necessary to resolve the discrepancy would not be cost effective. We will adjust the Part A MSP accounts receivable balance for \$5,908.*

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## Part B Non-MSP and MSP Accounts Receivable Balances

**Recommendation 5:** Change the status code for the one accounts receivable balance on the PSOR totaling \$31,851 to agree with the supporting documentation that shows the revised status.

***FCSO Response:***

*We concur with the recommendation. We will change the status code on the PSOR accounts receivable to agree with the supporting documentation.*

**Recommendation 6:** Adjust the Part B MSP accounts receivable balance by reducing it \$299 for the unsupported account receivable balance.

***FCSO Response:***

*We concur with the recommendation. Extensive research necessary to resolve the discrepancy would not be cost effective. We will adjust the Part B MSP accounts receivable balance for \$299.*

**Recommendation 7:** Continue with their plans to reopen the Part B non-MSP accounts receivable balance totaling \$9,015,289 and periodically keep us informed of the status of this account.

***FCSO Response:***

*We concur with the recommendation. The CMS Central Office reopened the accounts receivable on June 11 and June 12, 2001. These accounts are for one provider overpayment generated by the Anti-Fraud Branch. We will continue to work with CMS to correctly report this overpayment.*

**Recommendation 8:** Adjust the Part B non-MSP accounts receivable balance by reducing it \$144,087 for the unsupported account receivable balances.

***FCSO Response:***

*We do not concur with the recommendation. All accounts receivable reported on the CFO are accurately supported and recorded as stated in the report. The problem with this reconciliation is a small amount in the balance we were unable to reconcile with the PSOR. This amount equates to .0016% of our ending balance of \$89,220,317.45. The lack of a fully integrated financial system within the Verizon System negatively impacts the ability to fully reconcile accounts receivable.*

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We appreciate the opportunity to review and provide our comments prior to the report becoming final. If you have any questions or concerns regarding FCSO's responses, please contact me at 904-791-8795.

Yours truly,

A handwritten signature in black ink, appearing to read "M. Davis", with a stylized flourish at the end.

Michael Davis

cc: Richard Maloney  
Jim Thornton